


Report to Stockholders

YEAR ENDED DECEMBER 31, 1942

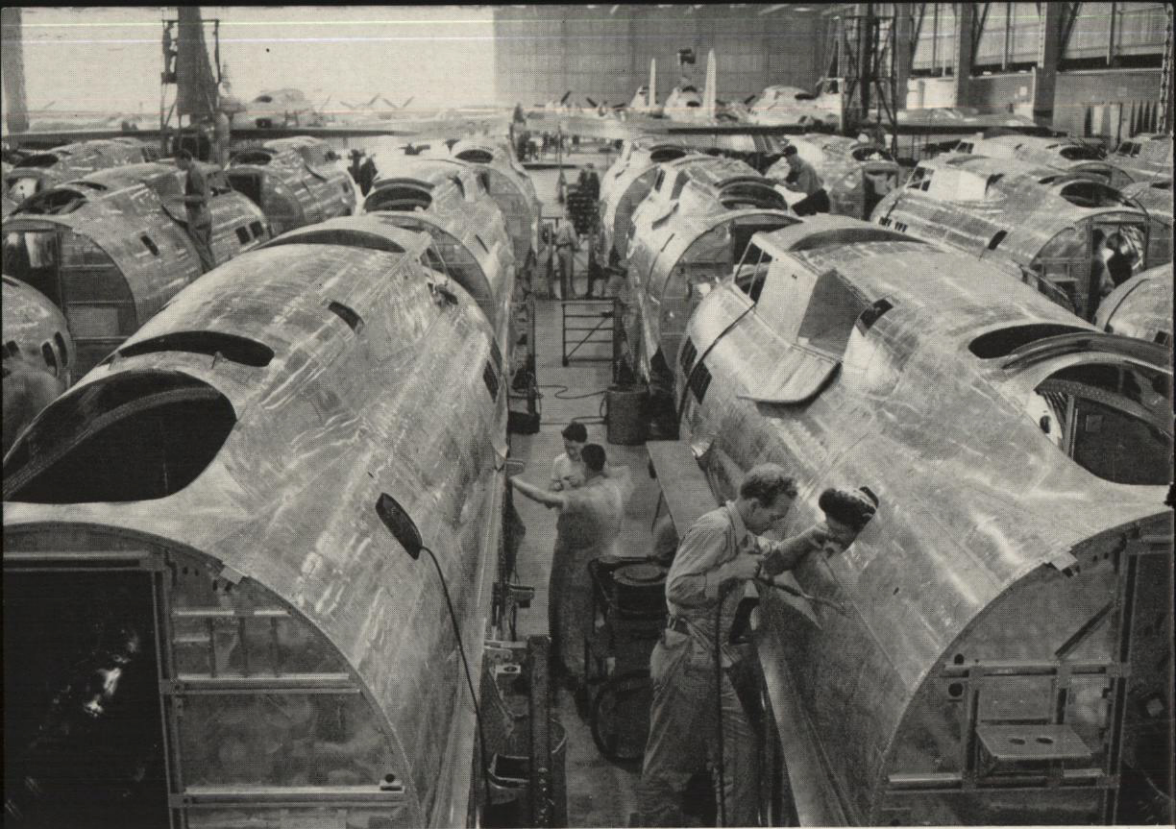


BOEING AIRPLANE COMPANY
and **SUBSIDIARY COMPANIES**



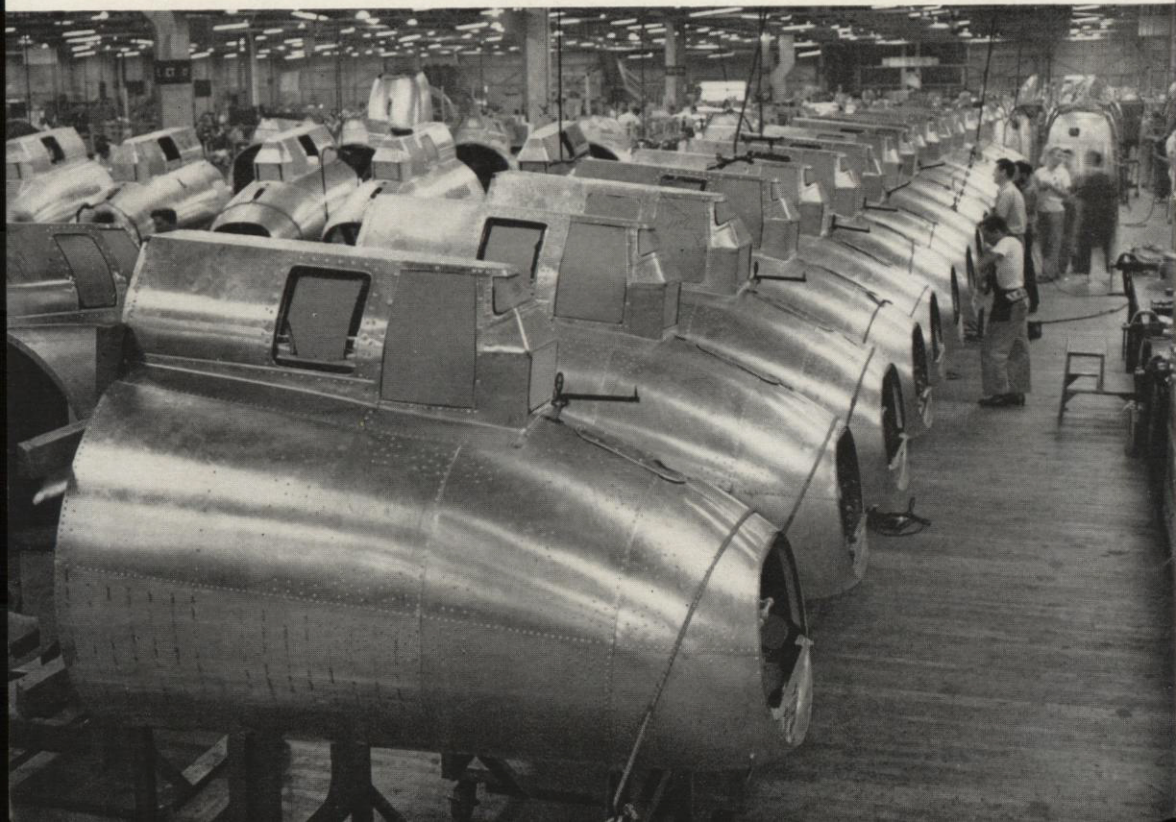
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CORPORATION FILE

Through the nose of a Boeing Flying Fortress, the bombardier has a view of another Fortress flying in his formation. Flying Fortresses are playing a major role in carrying the United Nations' aerial offensive to the enemy throughout the world.



ABOVE: Flying Fortress forward sections after being removed from jigs are completed on production lines like this.

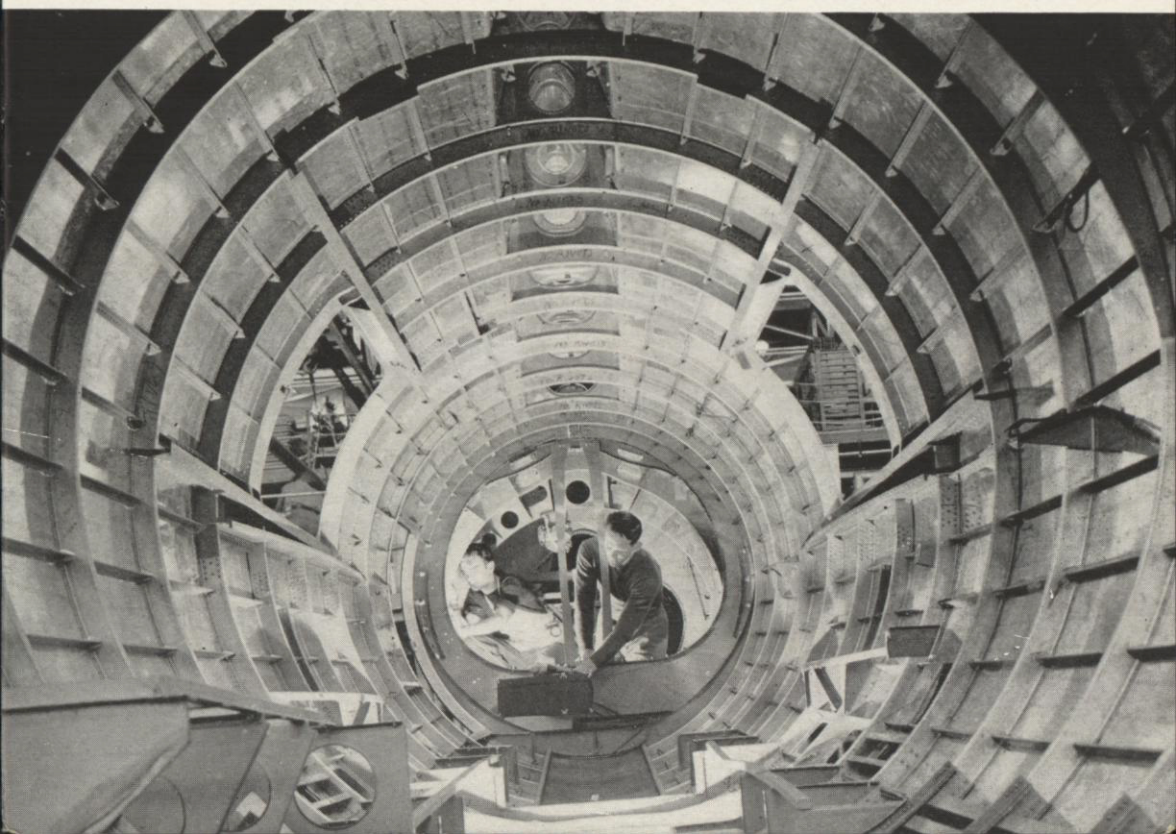
BELOW: Complete except for their guns, which will be installed later, these stinger turrets are ready to be joined to the other sections of the fuselage.





ABOVE: Long, slim rear fuselage sections are completed on their production lines and later are joined with the front sections.

BELOW: Sturdy construction has enabled Boeing Flying Fortresses to establish an enviable record for successful completion of missions and safe return to bases.





ABOVE: Near Mt. Rainier a Boeing Flying Fortress undergoes a "check out" flight.

BELOW: Training wings for the Allied Nations are made by the Wichita Division. From bottom the planes are: PT 17 for U. S. Army, N2S3 for U. S. Navy, PT 17 for China, PT 27 for Great Britain, and A75N1 for Peru.



ANNUAL REPORT

To the Stockholders of Boeing Airplane Company:

We are now in the second year of World War II and it is with pride that we record that your Company, through its various divisions, has met its ever accelerating schedules for the production of aircraft which are daily proving their worth on the battlefronts. The Boeing Flying Fortress has become a national by-word. At home Boeing training planes in vast numbers are helping to perform the tremendous task of producing the necessary pilots for America's aerial offensive.

Because of wartime restrictions it has been necessary to omit from this report many of the facts of the Company's operations which in normal times would be included. However, it is possible to summarize in a broad way the activities of a year that is unquestionably the most outstanding in the Company's history.

Your management wishes to acknowledge, with full appreciation, the efforts that have been put forth by the employees of the Company to make this year's record possible. The production accomplishment is a tribute to the workers, supervisors and officers with whom the plants are staffed.

Corporate Structure

Boeing Airplane Company owns all the capital stock of Boeing Aircraft Company, the Seattle manufacturing subsidiary. Boeing Airplane Company is also an operating company through its Wichita Division located at Wichita, Kansas. Boeing Aircraft Company is a Washington corporation and has two main Divisions, the Renton Division located on Lake Washington near Seattle and the Seattle Division, where the head office of both companies is located. Boeing Aircraft Company owns all the capital stock of Boeing Aircraft of Canada Limited, a Canadian subsidiary, located at Vancouver, B. C. For convenience Boeing Airplane Company and Boeing Aircraft Company are sometimes collectively referred to in this report as the Company.

Activities of Divisions

Boeing Aircraft Company, the Seattle subsidiary, was selected in 1942 by the Government as the first airframe manufacturer to be honored with the joint Army-Navy "E" award for excellence of production. It won this distinction because it has met

its ever-increasing schedules on time, despite the many problems and obstacles which have beset manufacturers under wartime conditions.

Boeing Airplane Company—Wichita Division was likewise honored by an award of the Army-Navy Production "E". This Division continued its outstanding record in the production of Boeing primary training planes which have long been standard in the service of the U. S. Army and Navy as well as in the air forces of other allied nations. In addition, the Division handled a substantial and increasing volume of other military production.

Deliveries during the year increased even more than the dollar volume of sales would indicate. More than eight times as many Flying Fortresses were delivered during 1942 as during 1941. The 1943 production schedules call for still further increases and your management is determined to exceed the scheduled production.

At both the Wichita Division and the Renton Division, the large new plant facilities were completed during the year. Both of these facilities were built with funds of Defense Plant Corporation and are leased by the Company at a nominal rental. Further additions of equipment and new installations at these plants were being undertaken at the end of the year by Defense Plant Corporation.

Acquisition of further facilities at Seattle was limited to additional equipment and construction of temporary buildings under facilities contracts with the Government and to the construction of a new wind tunnel and advanced research aerodynamic laboratory for the Company's own account.

In accordance with the intention expressed in last year's report, Boeing Aircraft Company has negotiated with the Government for the acquisition of the Government's interest in facilities which cost \$7,769,363.78. These facilities principally consist of a factory and office building at the main Seattle plant, together with machinery and equipment. In the opinion of the directors the acquisition of these facilities by the Company is necessary to provide the Company with an integrated plant for future operations.

Boeing Aircraft of Canada Limited, Vancouver, B. C., made deliveries during the year under substantial contracts with the Canadian Government for the construction of military aircraft and parts. The Vancouver subsidiary operates four production plants, the principal of which is a new plant constructed and wholly-owned by the Dominion Government.

Engineering

Engineering activity reached a new high level during 1942. Development of the combat-proved Boeing Flying Fortress series continued, two new experimental designs were completed and test flown during the year, and a contract was negotiated for a third experimental type. Engineering field service activities were increased, including the dispatch of overseas engineering service groups to all combat areas where Flying Fortresses are in action. In addition to work on current production and experimental projects, an extensive program of engineering, aerodynamic, and flight test research was carried on. This program included the design and initial stages of construction on one of the most modern and complete wind tunnels and aeronautical research laboratories in the aircraft industry. During the year a new research program was laid down for the year 1943, calling for a continuation of the projects begun in 1942 and the inauguration of a variety of new and vital research projects.

Postwar Planning

Plans for postwar operations are being developed to the best of the Company's ability. Research in aircraft design as well as studies of possible non-aircraft products which could be developed by the Company's engineering talent and manufactured by its facilities are being conducted by a special division of the Engineering Department. Additional research studies, market analyses and surveys are being conducted by an independent agency. These studies have been undertaken in order to better equip the management with information on which to base the important decisions that will confront the Company in the postwar future.

A conservative national campaign of institutional advertising has been carried out during the past year and is now continuing. Its objective is to acquaint the public with the Company's accomplishments and with its varied engineering and manufacturing talents and experience which will be reflected in any future product to be offered for sale under the name of Boeing.

Employment

The great increase in employment which has taken place since Pearl Harbor has introduced many new and vexing problems. Turnover has been unusually high during the past year due to military induction and enlistments, plus the advent of a large number of female employees and the general unrest and unsettled state of labor under war conditions.

In order to relieve men for military and naval service, the Company began early in the war period to train and employ female factory workers. In March, 1942, about 2.6% of the factory employees were female, and the acceleration was stepped up rapidly to 42% women by December 31, 1942. At present, approximately 45% of the employees in manufacturing departments are women.

The labor relations agreement between Boeing Aircraft Company and Aeronautical Industrial District Lodge No. 751 of the International Association of Machinists (affiliated with the American Federation of Labor) expired June 30, 1942. Previous to that time, negotiations had been under way toward a new agreement. On June 18, 1942, the War Production Board advised that an attempt was to be made to stabilize wages of aircraft workers for the West Coast Airframe Industry; negotiations between the Company and the union were recessed at the request of the Government, and the old agreement was extended by mutual consent. After approximately eight months of hearings and study, the National War Labor Board, to which jurisdiction of the wage stabilization program had been transferred, rendered its decision on March 3, 1943. The National War Labor Board's decision resulted in certain wage increases and retroactive pay. The application of the Directive Order and the completion of a new labor relations agreement is presently being worked out through the medium of a local Regional War Labor Board Aircraft Committee.

Breakdown of Income and Disbursements

The profit and loss statement submitted as part of the financial statements is of necessity presented in its traditional form. However, many interesting things are not revealed. There is set forth below a tabulation in which the income received by the Company through the sale of its products and services is regarded as 100%. The share of that income apportioned to each function is then shown as a percent of sales. Note that the Government (Federal and State) received approximately seven times as much of the profit as accrued to the stockholders. Wages and salaries paid to employees amount to 27 $\frac{3}{4}$ % of total income. This reflects a substantial decrease over the former years in man-hours per pound of finished product, indicating the increasing efficiency of the Company's manufacturing operations. The high output per man-hour has been brought about by more efficient shop organization and equipment and the determination of your management and employees to meet an ever-increasing delivery schedule. The savings so effected have been passed on to the Government.

Division of Gross Income for the Year 1942

Gross Income Received (after provisions for refunds to the Government applicable to the year).....		100.00%
This was disposed of as follows:		
Payments to vendors and subcontractors for materials and parts used in production and required to repair and maintain buildings and equipment....	59.73%	
Wages and salaries paid to employees (Excluding officers' salaries).....	27.70%	
Salaries of officers.....	.05%	
Insurance, utilities, professional fees, advertising and other services.....	.93%	
Wear out and amortization of equipment and facilities.....	.25%	
Provision to cover indeterminate expenses resulting from wartime conditions, adjustments arising from acquisition of Government's interest in facilities and possible further refunds.....	.81%	89.47%
Net Income before taxes.....		10.53%
Taxes payable to United States Government.....	8.72%	
State and Local Taxes.....	.47%	9.19%
Net Profit.....		1.34%
Paid to Stockholders in cash as a dividend.....		.28%
Balance of Stockholders' share reinvested in business.....		1.06%

Contract Adjustments and Renegotiation

The 1941 annual report contained this statement: "In 1940 a contract for a large quantity of Flying Fortresses was entered into on a fixed price basis. Additional modern facilities, including both buildings and equipment, were required for the performance of this contract and it was not possible at that time to accurately evaluate the effect which large quantities would have on cost when being produced with facilities designed for that purpose. Accordingly, there was included in the contract a provision that after a certain number of aircraft had been delivered the costs of performing the contract would be reviewed, and if they were materially less than anticipated, the Company and the Government would endeavor to arrive at a mutually satisfactory price for the aircraft." In 1942 deliveries under this contract were substantially completed. After negotiation the Company agreed to readjust prices under the contract and to refund to the Government \$31,176,343.00, upon securing an agreement that the amount refunded would not be subject to profits taxes. Of this amount \$6,130,961.13 was applicable to 1941 deliveries and was provided for in the financial statements for that year; \$25,001,052.23 is applicable to the year 1942 and is reflected in the current statements; the balance, \$44,329.64, is applicable to deliveries to be made in 1943. In addition the Company agreed to eliminate from this contract the escalator clause (which is intended to protect the Company against rises in wage and material price levels) under which approximately \$7,300,000 would have been payable to the Company. (Of this amount \$1,388,374.07 was collected and will be refunded). The Treasury Department has indicated that a satisfactory tax agreement will be forthcoming. It is therefore expected that the entire refund will be made in the near future.

In the Sixth Supplemental National Defense Appropriation Act the Congress inserted a provision giving the War Department, the Navy Department and the Maritime Commission the authority to review profits realized from Government contracts and to determine what portion, if any, in their opinion is excessive.

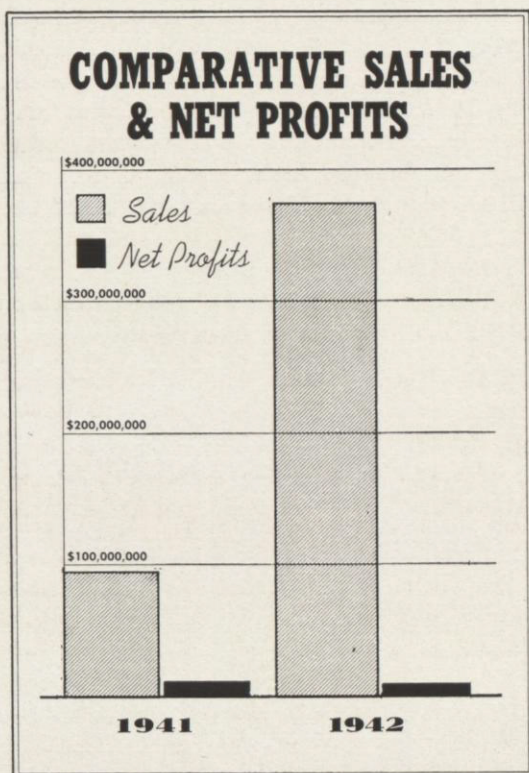
In negotiations with representatives of the War Department, pursuant to the above act, the Company called attention to the costs incurred by the Company in the development of four-engine aircraft; the denial of access to foreign markets for the Company's products; the many years involved in the development of the Company's products during which the stockholders received little or no return on their investment, and the Company's outstanding contribution to the War Effort. The representatives of the War

Department, after giving consideration to these and other factors, determined that a refund should be made to the Government by the Company in the amount of \$9,300,000 with respect to the year 1942 and an agreement giving effect to this determination is now being drawn. This adjustment, which is in addition to the refund mentioned in the paragraph above, has been reflected in the 1942 financial statements.

The amounts of these refunds are very substantial. However, it should be noted that if the refunds were not made, approximately eighty percent thereof would have been returned to the Government through taxes.

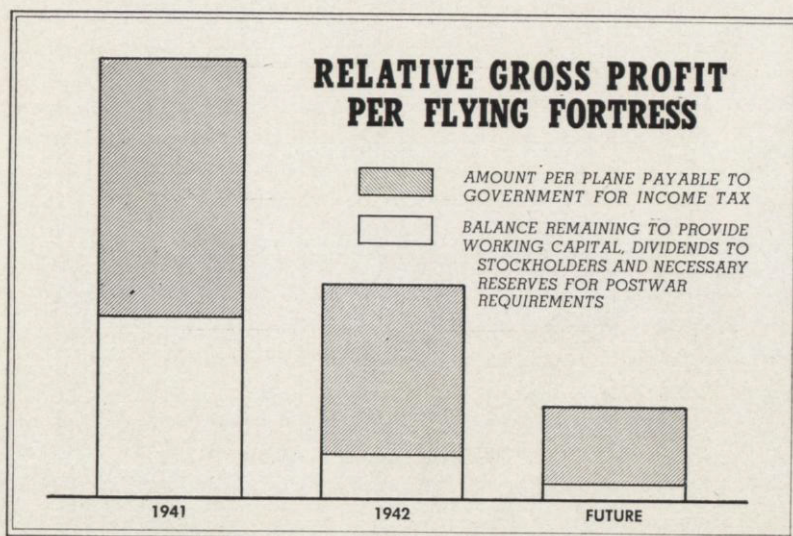
Financial

Notwithstanding the fact that sales of products and services increased from \$97,210,000 in 1941 to \$390,320,000 in 1942, net profits decreased from \$6,113,000 in 1941 to \$5,238,000 in 1942. The sharp increase in volume of business as contrasted to the decrease in net profits is depicted below.



The decrease in profits is largely attributable to the lower rate of manufacturing gross profit which came with the transition from fixed price domestic and foreign business in 1941 to almost one hundred percent United States Government business on a cost-plus-a-fixed-fee basis at the close of 1942, to increased taxes and to price adjustments and refunds to the Government.

As pointed out, the Company's business is now almost entirely on a cost-plus-a-fixed-fee basis. Your management believes that this is the only type of contract under which the Company can operate a business which must be projected into the future for several years, considering the fact that the Company has no control over wage rates, material availability and changes. Viewed from the Government's standpoint the fixed fee basis of contracting has resulted in a continued and substantial reduction in total cost per unit on each succeeding contract, and in addition, the Government has made two reductions in the rate of allowable fee. On one of the Company's contracts for airplanes which extends over a considerable period of time, three different rates have been used in fixing the fee. Consequently, the dollars of manufacturing gross profit per airplane to be delivered in the latter part of this contract will be considerably less than that realized per airplane in 1942 from the same contract. The following chart shows the relative number of such dollars realized from a Flying Fortress in 1942 and in the future from this contract as compared to 1941 results from the same type of airplane. In preparing this chart it has been assumed that the future tax rate will remain the same as the 1942 rate.



The directors have considered it necessary to again set up a reserve for possible future contract adjustments and indeterminate expenses arising from the war. The amount set aside for 1942 is \$2,500,000.00.

In 1939 the Board of Directors approved a transfer of \$3,471,-686.29 from Paid-In Surplus to Earned Surplus to eliminate the deficit in the latter account. In the 1941 annual report you were advised that the directors were considering reversing this entry so that the financial statements would show the amount of capital invested in the Company and the net earned surplus to date. The Board has now directed that this be done.

In the Revenue Act of 1942 the Congress provided that ten per cent of the excess profits tax paid for the year 1942 should be returned to the taxpayer in the form of a non-interest bearing bond, which until the cessation of hostilities may not be sold, pledged or otherwise transferred. These bonds will mature at the end of the second year after the cessation of hostilities. In view of the uncertainty as to when hostilities may cease, and because the amount of cash finally to be received is uncertain, the directors concluded that they would set aside the amount to be realized from the bonds, whatever it may finally be, as a funded reserve for development of postwar products and markets.

Your management has followed a forward looking financial and accounting policy. It has taken cognizance of the fact that the facilities and organization have greatly expanded during the past two years and all of its manufacturing units have been operating under abnormal conditions brought about by the war. Furthermore, cognizance has been taken of the fact that due to the excellence of the Company's military products, it has had to devote its primary productive effort to such products. The Board of Directors has established reserves as elsewhere outlined in an effort to provide for some of the requirements of the post-war era. The financial statements herewith attached reflect the foregoing policy.

The statement of consolidated income and surplus of the Company and its subsidiary Company for the year 1942, and the consolidated balance sheet as of December 31, 1942, are submitted herewith, together with the report of Allen R. Smart & Co., independent certified public accountants.

By order of the Board of Directors.

April 19, 1943.

P. G. JOHNSON,
President.

BOEING AIRPLANE COMPANY

CONSOLIDATED

December

ASSETS

CURRENT ASSETS:

Cash		\$ 41,751,969.07
Cash and United States War Savings Bonds held for the account of employees (per contra)		365,170.51
Accounts Receivable including \$18,842,364.26 due from the United States	\$ 25,010,406.34	
Less—Portion of fees on cost-plus-a-fixed-fee contracts retained by the United States until completion of the contracts or portions thereof	1,888,636.94	23,121,769.40
Costs Chargeable to the United States in respect of cost-plus-a-fixed-fee contracts, and accrued fees		47,589,509.86
Inventories of Contracts in Progress, purchased materials and parts (Note 1)—Less progress payment of \$62,650.00 and reserves for losses of \$545,000.00		4,594,146.09
TOTAL CURRENT ASSETS		\$117,422,564.93

INVESTMENTS AND OTHER ASSETS:

Investment In and Advances to Boeing Aircraft of Canada Limited, a wholly-owned subsidiary, not consolidated...	\$ 284,384.98	
Deposits with Mutual Insurance Company, etc.	69,495.93	
Estimated Post-War Refund of Excess Profits Tax (Note 4)	2,860,000.00	3,213,880.91

EMERGENCY PLANT FACILITIES ACQUIRED UNDER CONTRACTS WITH THE UNITED STATES—Less reserve for amortization of \$1,553,872.76

10,304,501.52

FIXED ASSETS—At Cost:

Land and Buildings	\$ 2,511,371.99	
Machinery, Tools and Equipment	1,956,974.38	
Facilities Acquired During the Emergency Period with own funds in the interest of National Defense	3,563,124.40	
	\$ 8,031,470.77	

Less—Reserves for Depreciation and Amortization 2,730,371.48 5,301,099.29

DEFERRED CHARGES 277,069.06

\$136,519,115.71

NOTE: The above consolidated balance sheet is subject to the

AND SUBSIDIARY COMPANY

BALANCE SHEET

31, 1942

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

Accounts Payable		\$ 16,567,339.15
Employees' Deductions for United States War Savings Bonds (per contra)		365,170.51
Accrued Wages, Taxes, etc.		7,060,154.62
Provision for Refunds to the United States:		
On Contract Price Adjustment (Note 2)	\$ 32,520,387.43	
On Account of Renegotiation of Profits under Federal Law (Note 2)	9,300,000.00	41,820,387.43
Provision for the Net of Refunds and Adjustments consequent upon a retroactive termination, in process of consummation, of a certain Emergency Plant Facilities Contract (Note 3)		674,361.93
Provision for Prior Years' Federal Income and Excess Profits Taxes (Note 4)		737,832.82
Provision for 1942 Federal Income and Excess Profits Taxes and State Income Tax (Note 4)	\$ 29,390,250.00	
Less—United States Treasury Notes—Tax Series	20,019,200.00	9,371,050.00
Advances on Sales Contracts	\$ 40,958,764.22	
Less—Cash balances restricted to use for performance of related cost-plus-a-fixed-fee contracts	19,574,473.43	21,384,290.79
TOTAL CURRENT LIABILITIES		\$ 97,980,587.25

NOTES PAYABLE TO BANK (Note 3) (Payable in installments from reimbursements receivable from the United States under Emergency Plant Facilities Contracts, the right of the Company to receive such reimbursements having been assigned to the Bank)—Less reimbursements of \$258,978.80 in transit

9,407,071.27

RESERVES FOR:

Contract Adjustments and Indeterminate Expenses Resulting from War-Time Conditions (Note 5)	\$ 4,950,067.68	
Development of Post-War Products and Markets (Note 6)	2,860,000.00	7,810,067.68

CAPITAL STOCK AND SURPLUS:

Capital Stock:

Authorized—1,250,000 shares of \$5.00 par value

Issued and Outstanding—1,082,454 shares,

including 530 ½ shares issuable for shares of common stock of United Aircraft & Transport Corporation when presented for exchange

\$ 5,412,270.00

Paid-In Surplus

8,142,063.83

Earned Surplus

7,767,055.68

21,321,389.51

\$136,519,115.71

notes to consolidated financial statements on succeeding pages.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY
CONSOLIDATED PROFIT AND LOSS STATEMENT

Year ended December 31, 1942

Sales of Airplanes and Parts (after provisions for refunds applicable to the year) (Notes 1 and 2)		\$386,567,316.69
Sales of Engineering and Other Information and Manufacturing Rights (Note 7)		3,541,546.80
Other Income—Discount on Purchases, etc.		213,875.23
		<u>\$390,322,738.72</u>
Cost of Sales (including depreciation of \$430,465.91) (Note 1)	\$351,175,180.10	
Other Corporate Expenses	801,921.87	
Amortization of Facilities Acquired During the Emergency Period With Own Funds in the Interest of National Defense in excess of depreciation charged in respect thereof	543,400.90	
(Not including amortization of \$1,553,872.76, equivalent to reimbursements from the United States under an Emergency Plant Facilities Contract)		
Provision for the Net of Refunds and Adjustments consequent upon a retroactive termination, in process of consummation, of a certain Emergency Plant Facilities Contract (Note 3)	674,361.93	353,194,864.80
		<u>\$ 37,127,873.92</u>
Provision for Contract Adjustments and Indeterminate Expenses Resulting from War-Time Conditions (Note 5)		2,500,000.00
		<u>\$ 34,627,873.92</u>
Provision for Estimated Federal Income Taxes (\$770,000.00), Federal Excess Profits Taxes (\$28,600,000.00) and State Income Tax (\$20,250.00) (Note 4) (The post-war refund of excess profits tax of \$2,860,000.00 has been transferred to a Reserve for Development of Post-War Products and Markets) (Note 6)		29,390,250.00
Profit Transferred To Earned Surplus		<u>\$ 5,237,623.92</u>

NOTE: The above consolidated profit and loss statement is subject to the notes to consolidated financial statements on succeeding pages.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY

CONSOLIDATED SURPLUS ACCOUNTS

Year ended December 31, 1942

	<i>Earned Surplus</i>	<i>Paid-In Surplus</i>
Balance—January 1, 1942.....	\$ 5,809,623.48	\$ 4,637,433.90
Add:		
Profit for the Year ended December 31, 1942.....	5,237,623.92	
Transfer of Reserve for Loss provided in a prior year on a certain experimental contract not required.....	920,000.00	
Accrual of Income from Sales of Engineering and Other Information and Manufacturing Rights applicable to a prior year.....	351,913.80	
Proceeds of a Claim Against the United States under the National Industrial Recovery Act.....	2,034.77	32,943.64
	<u>\$12,321,195.97</u>	<u>\$ 4,670,377.54</u>
Deduct—Cash dividend paid of \$1.00 per share.....	1,082,454.00	
	<u>\$11,238,741.97</u>	<u>\$ 4,670,377.54</u>
To Restore to Paid-In Surplus by order of the Board of Directors, the amount which had been transferred therefrom at September 30, 1939, to eliminate the earned surplus (deficit) at that date.....	(3,471,686.29)	3,471,686.29
Balance—December 31, 1942.....	<u>\$ 7,767,055.68</u>	<u>\$ 8,142,063.83</u>

() Denotes red figure.

NOTE: The above consolidated surplus accounts are subject to the notes to consolidated financial statements on the following pages.

BOEING AIRPLANE COMPANY AND SUBSIDIARY COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1942

NOTE 1:

Inventories of purchased materials and parts are valued at the lower of cost or market, and contracts in progress are valued at the lower of cost or estimated proportionate sales value. All operating costs and expenses, exclusive of amortization in excess of depreciation allowances, selling and certain administrative expenses, are included as elements of cost in determining inventory valuations and cost of products sold. No inter-company profits are included in the inventories.

Cost of sales under partially completed fixed price contracts is computed on the basis of estimates of cost and under cost-plus-a-fixed-fee contracts on the basis of expenditures made or accrued. Sales are inclusive of amounts charged or chargeable under cost-plus-a-fixed-fee contracts, which amounts include applicable fees based upon percentage of completion.

NOTE 2:

Pursuant to the terms of a certain contract which required negotiation looking toward a price reduction, the Company's subsidiary and the Government have agreed upon a reduced price and the adjustments resulting therefrom applicable to deliveries made to December 31, 1942 have been reflected in the accounts.

The Company and its subsidiary have reached a tentative agreement with representatives of the War Department with respect to renegotiation under the provisions of the Sixth Supplemental National Defense Appropriation Act, as amended, whereby the companies are to refund \$9,300,000.00, with respect to the year 1942.

NOTE 3:

Under the terms of contracts entered into by the Company's subsidiary with the United States, for the acquisition, construction and installation of Emergency Plant Facilities, the Government has agreed to reimburse the Company's subsidiary for such expenditures, as limited in amounts by the contracts, over a period of sixty consecutive calendar months following completion. In connection therewith the Company's subsidiary has entered into agreements with The National City Bank of New York pursuant to which the Bank has loaned or agreed to loan the amounts expended subject to the maximum limitations of the agreements. The

agreements provide that the Bank shall have recourse for the payment of the principal of all such loans solely to the payments which are to be made by the Government under the terms of the Emergency Plant Facilities Contracts, which have been assigned to the Bank, except in the case of default by the Company's subsidiary in connection with the performance of the contracts with the Government or the agreements with the Bank. Notes covering such loans are payable on or before September 1, 1946, in the amount of \$6,215,491.02 (after application of reimbursements in transit), and on or before February 28, 1948, in the amount of \$3,191,580.25.

With respect to one of the Emergency Plant Facilities Contracts referred to above, of an original amount of \$7,769,363.78, the Company's subsidiary has signed an agreement which is subject to certain further approvals, which provides, among other things, that such contract be retroactively cancelled and terminated as of December 31, 1941, and that a portion of the payments received subsequent to that date, under the terms of the contract, be refunded to the Government. The agreement also provides for a credit to the Government covering certain amounts of interest previously charged to the Government. Provision of \$674,361.93 has been made in the accounts to reflect the net of refunds and adjustments which will be applicable to the year 1942.

At such time as the agreement shall become effective, the Company's subsidiary will assume full liability with respect to the then remaining balance of Notes Payable to The National City Bank, aggregating \$6,215,491.02 at December 31, 1942.

NOTE 4:

Under the provisions of the Internal Revenue Code, Federal income and excess profits taxes accrued and paid during the war period, and the post-war refund of excess profits tax, are necessarily subject to adjustments for factors not presently determinable. These factors include, among others, special relief, two year carry-back of losses and the reallocation of amortization of Emergency Plant Facilities dependent upon the duration of the emergency period.

NOTE 5:

For the year 1942 an addition of \$2,500,000.00 was made to the Reserve for Contract Adjustments and Indeterminate Expenses Resulting from War-Time Conditions, which reserve had been established in the previous year. At December 31, 1942, this reserve is applicable primarily to costs and expenses of a nature

which it is expected will occur at the termination of the war period, including adjustments of war contracts and costs and expenses relative to personnel and plant facilities. During the year 1942 this reserve was charged with an amount of \$1,049,932.32, representing the net adjustment applicable to the year 1941, with respect to that certain contract price adjustment referred to in Note 2, consideration having been given to such an adjustment in determining the amount of the reserve established in 1941.

NOTE 6:

A reserve for the Development of Post-War Products and Markets has been ordered by the Board of Directors in an amount equivalent to the Post-War Refund of Excess Profits Tax. Inasmuch as the Company's activities are devoted almost exclusively to war products, it is recognized that a reserve is necessary because of the costs which will be incurred in developing products and markets for operation in a peace-time economy. It is the intention that the reserve be funded by the post-war refund of excess profits tax and subsequent transfers from this reserve have been authorized in the amount of any subsequent adjustment to the post-war refund of excess profits tax.

NOTE 7:

Sales of Engineering and Other Information and Manufacturing Rights include the amounts provided for in the contracts relative thereto entered into during the year 1942. Income for the prior year from similar transactions included only the amounts billed. This change in accounting practice results in an increase in income over the former basis used of \$635,386.70, and an increase in profit, after taking into consideration Federal Income and Excess Profits Taxes, of \$127,077.34.

NOTE 8:

The Company's subsidiary is contingently liable for refund of income from the sales of engineering and other information and manufacturing rights in the event of cancellation by the Government of the contracts of the companies to whom the information is furnished and the rights granted, in amounts varying with the performance of such contracts, but not in excess of \$2,839,246.72 at December 31, 1942.

ACCOUNTANTS' REPORT

To The Stockholders.

BOEING AIRPLANE COMPANY:

We have examined the consolidated balance sheet of Boeing Airplane Company and Subsidiary Company as of December 31, 1942, and the consolidated statement of profit and loss and surplus accounts for the year then ended. In connection therewith we reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, except that it was not practicable to obtain satisfactory confirmations of receivables from United States Government departments and agencies, with respect to which we have satisfied ourselves by means of other auditing procedures.

Provision has been made by the Company for refund to the United States of \$9,300,000.00 on account of renegotiation of profits under the Sixth Supplemental National Defense Appropriation Act, as amended, which amount has been tentatively agreed upon by the Company and representatives of the War Department.

In our opinion, the accompanying consolidated balance sheet and related statement of profit and loss and surplus accounts present fairly the consolidated position of Boeing Airplane Company and Subsidiary Company at December 31, 1942, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles, which principles have been applied on a basis consistent with that of the previous year except that the basis of accrual of income arising from the sale of engineering and other information and manufacturing rights has been changed in the manner and with the result set forth in Note 7 to the consolidated financial statements.

ALLEN R. SMART & CO.,
Certified Public Accountants.

Seattle, Washington,
April 13, 1943.

BOEING AIRCRAFT OF CANADA LIMITED

CONDENSED BALANCE SHEET AS AT DECEMBER 31, 1942

(IN CANADIAN DOLLARS)

ASSETS

Cash in Bank and on Hand	\$ 27,203.22
Accounts Receivable	748,445.50
Victory Bonds and Accrued Interest (Market Value \$149,659.93) (Note 2)	150,409.93
Advance Payments on Material	55,840.24
Expended for Canadian Government on Construc- tion of Tools and Equipment	105,340.35
Inventories:	
Arising from Contracts with the Canadian Government, including delivered finished goods on which sale prices have not been fixed, work in process, raw materials and supplies, title to substantially all of which has passed to the Government at Cost (Note 3)	\$14,113,812.56
Less Progress Payments	12,877,199.07
	\$ 1,236,613.49
Other—at lower of cost or market	348,758.67
	1,585,372.16
TOTAL CURRENT ASSETS (Note 1)	\$2,672,611.40
Fixed Assets, less Reserve for Depreciation	144,520.17
Deferred Charges	15,039.28
TOTAL ASSETS	<u>\$2,832,170.85</u>

LIABILITIES

Bank Loans:	
Notes Payable (Note 1)	\$ 360,000.00
Demand Loan—Victory Bonds (Note 2)	150,000.00
	\$ 510,000.00
Accounts Payable and Accrued Expenses	1,408,629.03
Reserve for Contract Adjustments (Note 4)	329,039.82
Reserve for Income and Profits Taxes (Notes 3 and 5)	79,456.46
TOTAL CURRENT LIABILITIES	\$2,327,125.31
Advances from U. S. Affiliated Companies	129,304.42
Capital Stock:	
Preferred 6% Cumulative Redeemable (Note 6) \$	683,000.00
Common Stock—No Par Value	10,046.20
	693,046.20
Surplus (Deficit) as at December 31st, 1941	\$ 381,430.98*
Add Net Profit for the year (Note 3)	\$ 64,125.90
	* 317,305.08
TOTAL LIABILITIES	<u>\$2,832,170.85</u>

NOTE: The above condensed balance sheet is subject to the notes to the condensed balance sheet on the next succeeding page.

*Italics * denotes red figures.*

BOEING AIRCRAFT OF CANADA LIMITED

NOTES TO CONDENSED BALANCE SHEET

DECEMBER 31, 1942

NOTE 1:

Proceeds from certain Contracts, including Receivables of \$652,369.75 are pledged to secure Notes Payable to Bank of \$360,000.00.

NOTE 2:

Victory Bonds subscribed for by the Company costing \$150,000.00 are pledged to secure a Demand Loan payable to Bank of \$150,000.00 for purchase of Victory Bonds.

NOTE 3:

There is included in Inventories, aircraft and aircraft parts as well as other work performed, delivered, or in process of manufacture which involved expenditures of \$1,346,916.03 and \$9,601,240.30 during 1941 and 1942, respectively. The Company currently recovers costs as determined by the Canadian Government through progress payments. Under the terms of the contracts covering the major portion of this work the determination of profit is left to the discretion of the Minister of Munitions and Supply. No profit thereon has been received or included in this statement, nor has any provision been made for income and profits taxes in respect thereto.

NOTE 4:

During the year the Company made provision for probable required downward adjustment in the sales price of items delivered under certain contracts in the aggregate amount of \$441,628.71. As of December 31st, 1942, there remained in this account an unsettled balance of \$329,039.82.

NOTE 5:

Provision has been made for estimated income and profits taxes. The exact amount thereof cannot be determined pending hearing of the Company's application before the Board of Referees appointed under the provisions of the Excess Profits Tax Act.

NOTE 6:

Dividends on the 6% Cumulative Redeemable Preference Shares are in arrears in an amount of \$313,690.00.

NOTE 7:

Contingent Liability—Letters of Credit of \$435,000.00 for production material purchases payable on delivery; and guarantee of Bank Loan of \$168,029.38 to employees for Victory Bond Subscriptions secured by unreleased bonds totalling \$194,700.00.

ACCOUNTANTS' REPORT

To The Shareholders.

BOEING AIRCRAFT OF CANADA LIMITED:

We report to the Shareholders that we have made an examination of the accounts of Boeing Aircraft of Canada Limited for the year ended December 31st, 1942, and have obtained all the information and explanations we have required.

We have examined the Condensed Balance Sheet of the Company as at December 31st, 1942, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Condensed Balance Sheet presents fairly the position of Boeing Aircraft of Canada Limited as at December 31st, 1942, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

RIDDELL, STEAD, GRAHAM & HUTCHISON,
Chartered Accountants.

Vancouver, B. C.
March 25th, 1943.

BOARD OF DIRECTORS

WILLIAM M. ALLEN
Of Messrs. Holman, Sprague
& Allen

FRED P. LAUDAN
Vice-President
Boeing Aircraft Company

HAROLD E. BOWMAN
Secretary and Treasurer
Boeing Aircraft Company

J. E. SCHAEFER
Vice-President
Wichita, Kansas

DARRAH CORBET
Seattle, Washington

DIETRICH SCHMITZ
Seattle, Washington

CLAIRE L. EGTVEDT
Chairman
Boeing Aircraft Company

H. O. WEST
Executive Vice-President
Boeing Aircraft Company

P. G. JOHNSON
President and General Manager
Boeing Aircraft Company

OFFICERS

P. G. JOHNSON	President
CLAIRE L. EGTVEDT	Chairman
H. O. WEST	Executive Vice-President
J. E. SCHAEFER	Vice-President
W. E. BEALL	Vice-President—Engineering
JAMES P. MURRAY	Vice-President
HAROLD E. BOWMAN	Secretary and Treasurer

General Counsel

HOLMAN, SPRAGUE & ALLEN

General Auditors

ALLEN R. SMART & CO.

Transfer Agent

CITY BANK FARMERS TRUST COMPANY, NEW YORK

Registrar

THE NATIONAL CITY BANK OF NEW YORK, NEW YORK

In Tribute

AS A CITATION for outstanding services toward their country's eventual victory, Boeing Aircraft Company extends highest recognition and tribute to eleven men who lost their lives February 18, 1943, in their work of aircraft flight testing:

EDMUND T. ALLEN

BARCLAY HENSHAW

RAYMOND BASEL

THOMAS LANKFORD

CHARLES BLAINE

ROBERT MAXFIELD

ROBERT DANSFIELD

FRITZ MOHN

VINCENT NORTH

HARRY RALSTON

EDWARD WERSEBE

To Edmund T. Allen, no parting recognition which can be written here can add to the international esteem in which his name is held, as master test pilot, aeronautical engineer, and scientist. His work has greatly contributed to the advancement of aeronautics. The benefits of his work, both in the perfection of aerodynamic design through years of painstaking flight research and engineering study, and in the inspiration he has provided to others, will be everlasting.

No less is the honor due Mr. Allen's ten associates who worked together and died together with but one objective — the advancement of aviation. Each was outstanding in his field. Each has earned the highest respect and gratitude of his thousands of associates in the Boeing Company and the aircraft industry.

It has been the efforts of men like these, engaged in aeronautical research even at the time of their death, that have helped make American planes, military and commercial, the best in the world.

In tribute to their memories, Boeing Aircraft Company offers this lasting memorial, and resolves to carry forward their work with that spirit of devotion in which they gave their lives.

